COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1771-01
Bill No.: HB 888
Subject: Property, Real and Personal; State Tax Commission; Taxation and Revenue - Property
Type: Original
Date: April 1, 2009

Bill Summary: Would create the Predictable Property Tax Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0	$0 or ($20,000)	$0 or ($20,000)
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0 or ($20,000)**	**$0 or ($20,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Blind Pension	$0	$0 or ($940,000)	$0 or ($1,256,650)
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or ($940,000)**	**$0 or ($1,256,650)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	**$0**	**$0 or (More than $18,757,800)**	**$0 or (More than $251,330,000)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated public libraries may have reduced property tax rates and reduced revenues as a result of this proposal.

Officials from the **Office of Administration**, **Administrative Hearing Commission**, the **Department of Revenue**, and **Linn State Technical College** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Metropolitan Community Colleges** assume this proposal would result in revenue reductions of $900,000 per year.

Officials from **Clinton County** assume this proposal would result in unknown revenue reductions.

Officials from the **Office of the St. Louis County Assessor** assume this proposal would require their organization to modify their computers programs to adjust tax bills and create new reports, resulting in a one-time cost of $50,000.

Officials from the **Department of Elementary and Secondary Education** stated that there would be no increased cost to the state's school foundation formula as a result of this proposal. There is a likely loss of revenue to political subdivisions including school districts due to the limitation on increasing assessed valuation of certain properties. This loss cannot be estimated.

The proposal eliminates the ability of a school district to set its operating tax levy for school purposes to be in compliance with provisions for eligibility of state aid. Consequently, this may limit a district's ability to set an operating tax levy. However, since other provision regarding school district tax rates have not been changed, it appears that a school district could still set its operating tax levy for school purposes to be eligible for state aid.

Officials from the **Office of Administration**, **Division of Budget and Planning** did not respond to our request for information.

ASSUMPTION (continued)

Officials from the **State Tax Commission** (TAX) stated that this proposal would require TAX to develop and provide to county the assessors informational pamphlets for distribution to taxpayers outlining information regarding their right to appeal assessed values, time limitation for such appeals and other information relative to the appeal process. In addition to printing such pamphlets, the State Tax Commission will make this information available on their internet site. The cost of the printed pamphlets is expected to be approximately $2,000.00 per 100,000 forms. Assuming the Commission is required to print 1 million forms, the cost would be $20,000.

TAX officials also stated that this proposal would require county assessors to consider the current market conditions when reassessing real property. The increase in assessed value of residential property excluding new construction and improvement, would be limited to the lesser of the percentage increase in the CPI from the previous years or 2% unless the property is transferred. The consumer price index in December 2008 was 0.1%.

The 2008 assessed valuation for residential property is $52,202,340,377. In the reassessment year 2009, we do not believe there will be any increase in the assessed valuation of residential property that is owner occupied.

Should this proposal become law, in reassessment year 2011, the increase in assessed valuation of residential property would be limited to the CPI or 2% whichever is lesser. Normally the counties would realize an percentage increase in assessed value equal to the amount of federal Consumer Price Index (which averages over the past 9 years to be 2.92%). Therefore, we would assume the counties would experience a loss of revenue of 1%.

TAX officials calculated the loss as follows -

* $52,202,340,377 assessed valuation x 1% increase lost = $522,023,403.

* $522,023,403 assessed valuation loss x $6.13 average tax rate per $100 of assessed valuation = $ 32,000,034 revenue loss.

ASSUMPTION (continued)

Oversight notes that the proposal would make several changes to the assessment process for personal residences.

* County assessors would be required to consider current market conditions and professional appraisals in establishing real estate valuations, and the proposal would make a licensed or certified appraiser's report of value binding on the assessor.

* A property would be reassessed on a change in ownership, except that a property owner over the age of fifty-five could transfer the valuation from a personal residence to another personal residence if the market value of the replacement property is not more than one million dollars more than the value of the previous residence.

* Increases in assessed valuations of residential property would be limited to the lesser of two percent or the increase in the consumer price index.

Oversight assumes that county assessors currently consider current market conditions in determining assessed valuations, and that appraisals by licensed or certified appraisers are currently used in taxpayer appeals of assessed valuation. Accordingly, Oversight will indicate no fiscal impact for those provisions.

Oversight assumes that the provision authorizing a property to be reassessed after a change in ownership would eventually result in a significant increase in the assessed valuation of that property after the assessed valuation was limited due to other provisions in this proposal. However, under current provisions related to property assessment, this provision would not appear to have any fiscal impact. The provision allowing a homeowner to transfer the assessed valuation of his residence to another residence with a market value less than $1 million more than the previous residence would be expected to have a fiscal impact but not until after FY 2012.

Oversight assumes that the provision limiting increases in assessed valuation of a personal residence would result in a reduction of the growth in assessed valuations. The actual impact of the limitations on assessed valuations will be calculated subject to the following qualifications.

ASSUMPTION (continued)

Using data provided by the Office of the State Auditor, Oversight calculated an aggregate estimate of the amount of revenue which would be provided to local governments at their current aggregate assessed valuations, if their current levy rates were increased to the maximum authorized levy rates. The calculated amount was $1.1 billion for local governments which levied one overall tax levy rate, and $627 million for local governments which levy individual tax rates by property type. Oversight assumes that these amounts indicate that some local governments would be able to increase their levy rates to compensate for limitations on aggregate assessed valuation. The Oversight calculation that follows is an estimate of the maximum impact for this proposal; if local governments could compensate for the loss of assessed valuation by increasing their levy rates the impact would be reduced below the calculated amount.

Oversight will calculate an estimate of the impact as follows:

* According to the information reported by the State Tax Commission, the 2008 assessed valuation for residential property was $52,202,340,377.

* According to the United States Census Bureau reports, 70.3% of homes were owner-occupied.

* Based on reports from the State Tax Commission from the most recent ten years, real property has increased an average of 14% during reassessment cycles.During that same period, real property increased an average of 2.75% in even numbered (non-reassessment) years.

* The State Tax Commission reported an average local property tax rate of $6.13 per $100 assessed valuation.

* Based on reports from the Bureau of Labor Statistics, the average annual CPI increase was 2.89% over the most recent ten years.

Oversight assumes that the two percent limitation on increases in assessed valuation would apply to even-numbered (non-reassessment) years as well as to reassessment years. Oversight will assume for the purposes of this fiscal note that the proposal could take effect in January 2010 for taxes to be collected in December 2010 (FY 2011).

<u>ASSUMPTION</u> (continued)

The assessed valuation for 2008 for owner-occupied residential property would be ($52.2 billion x 70.3%) = $36.7 billion. Based on historic trends, the assessed valuation of that property would be expected to increase (14% - 2.75%) = 11.25% from 2008 to 2009 and the eligible 2009 assessed valuation would be $40.8 billion.

For 2010 (FY 2011), the assessed valuation increase would be limited by the proposal, resulting in a loss in assessed valuation of (2.75% - 2.0%) = 0.75% and the lost assessed valuation would be ($40.8 billion x 0.75%) = $306 million. The reduction in local government revenue would be ($306 million x $6.13 per $100 assessed valuation) = $18,757,800.

The state Blind Pension Fund would have a revenue reduction of one-half of one percent of the local government revenue reduction or ($18.8 million x .005) = $940,000.

For 2011 (FY 2012), the assessed valuation increase would again be limited by the proposal, resulting in a lost assessed valuation increase of (14% - 4%) = 10%. The loss in assessed valuation would be ($40.8 billion x 10%) = $4.1 billion. The revenue reduction would be ($4.1 billion x $6.13 per $100) = $251,330,000.

The state Blind Pension Fund would have a revenue reduction of one-half of one percent of the local government revenue reduction or ($251.3 million x .005) = $1,256,650.

Oversight notes that this proposal would only become effective after the passage of a constitutional amendment limiting increases in assessed value of residential property due to reassessment until a change of ownership occurs. Accordingly, Oversight will indicate a fiscal impact of $0 or the calculated impact.

Oversight notes that this proposal would eliminate the current provision allowing school districts to levy a property tax rate which does not exceed the highest rate in effect since 1980. Although Oversight does not have specific information regarding the number of schools which might be impacted or the effect of this limitation, Oversight will indicate an unknown loss of tax revenues to school districts for this provision.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Cost - State Tax Commission Printing	$0 or ($20,000)	$0 or ($20,000)	$0 or ($20,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 or ($20,000)**	**$0 or ($20,000)**	**$0 or ($20,000)**
BLIND PENSION FUND			
Revenue reduction - assessed valuation limit	$0	$0 or ($940,000)	$0 or ($1,256,650)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**$0 or ($940,000)**	**$0 or ($1,256,650)**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENTS			
Revenue reduction - schools Levy rate limit	$0	(Unknown)	(Unknown)
Revenue reduction - assessed valuation limit	$0	$0 or ($18,757,800)	$0 or ($251,330,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**$0 or (More than $18,757,800)**	**$0 or (More than $251,330,000)**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would eliminate the provision allowing school districts to levy a property tax rate which does not exceed the highest rate in effect since 1980.

The proposal would also make changes to the procedures for determining the assessed valuation of a personal residence and would require the State Tax Commission to provide informative brochures for assessors to distribute to taxpayers.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
    Administrative Hearing Commission
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
Linn State Technical College
Metropolitan Community colleges
Clinton County
St. Louis County
City of Raytown

Mickey Wilson

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Director
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